The Distress in the West

By **Alan J. Heavens Inquirer Real Estate Writer**
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If you are looking for a word that sums up today's housing market in Arizona, Nevada and California,Tolleson is it. Tolleson, a town of 7,000, 10 miles southwest of downtown Phoenix, swamped by almost 1,500 foreclosures in a metro area drowning in 75,000 of them, provides every reason that the Western real estate market is in the tank. The grazing lands and endless fields of long-staple Egyptian cotton and potatoes in the shadow of Estrella Mountain, miles from the major job centers north and east of Phoenix, were ploughed into rows of thousands of one-story reddish-brown concrete homes topped with reddish-brown tile roofs. Investors and flippers smelled a profit and started buying up the homes at $145,000 a pop, at first turning them over quickly for a profit, often double what they paid. "Prices were going up like gasoline," said Scottsdale real estate agent Luetta Newnam. "Flip that house was easy. Investors and shady lending made people think they had to buy before they went any higher. People stood in lines and were drawn in lotteries." For a while at least. In the words of Arizona State University professor Jay Butler, people who couldn't really afford to buy houses did so by "extending their incomes, using subprime loans at low teaser rates, convinced that they would be able to refinance into a fixed rate, because values continued to rise." Instead, values fell, and the low teaser rates reset into mortgage payments several times higher than they could afford. Marginal buyers began defaulting on their mortgage payments first, followed by investors and flippers who didn't know what they were doing and bought at the top rather than the bottom of the market. The same pattern was repeated, with slight variations, in Southern and Central California and Nevada. Today, "distressed" houses - be they those on the auction block every weekend, properties taken back by the lenders, or those whose owners are trying to short-sell to avert foreclosure - overwhelm the markets. Unemployment and depressed real estate are companions. In metropolitan Phoenix, 7 percent of the workforce is unemployed. It's 9.1 percent and rising in Las Vegas, and 9.9 percent in Los Angeles County. Arizona: Overbuilt and stalledSpend a day driving around the fringes of the city of Phoenix, and you'll see sidewalks crisscrossing vast stretches of empty reddish-brown acreage where some of the 400,000 units - 400,000 additional units - of housing planned for the area should be rising. In a vast weed-covered field bisected by railroad tracks along Lower Buckeye Avenue at the edge of the massive Hurley Ranch development in Tolleson sit mountains of neatly stacked construction materials covered with blue tarps to protect them from the weather. About 16 percent of the jobless in Phoenix are construction workers - most lured West during the 1990s from the depressed regions of the Northeast and Midwest. Commercial construction has ground to a halt, too. "Commercial development follows rooftops," so the saying goes, and when housing hits a wall, it negatively affects the dynamics of retail. The commercial and retail downturn is not limited to Phoenix. You'll see as many for-lease signs in suburban Las Vegas, or in the wealthier areas of Southern California. California: Where poor and wealthy meetThe central business district of wealthy Pasadena, which the late Johnny Carson teased for years on theTonight Show was "God's waiting room," is decorated with for-lease signs. If you believe in retribution, the biggest signs hang on the high-rises on North Lake Avenue above Colorado Boulevard, near the Gold Line light-rail station that housed the corporate headquarters of the disgraced IndyMac Federal Bank and regional headquarters of Countrywide Financial Corp. and Wachovia Corp., which have been swallowed, along with billions of bad home loans, into larger institutions. If you are fearful about how bad things will get, the business district along South Lake below Colorado offers a clue. A few doors from the recently renovated and reopened Macy's, a homeless man slept in a vacant storefront about noontime on a Saturday, his snoring drawing shoppers' attention. It's not that this upscale part of Los Angeles County - Pasadena, Altadena, San Marino, Arcadia - doesn't know poverty. Each Thanksgiving Day, hundreds of volunteers gather in Pasadena's Union Park to provide turkey dinners for the area's needy. It's simply that the poor and the wealthy rarely meet on such upscale ground. For so many years, Los Angeles' chief topic of conversation was real estate, and one place where deals were always being made, either in person or by cell, was The Nosh on Santa Monica Boulevard in Beverly Hills. It still serves the best bagels outside of Brooklyn, but the real estate talk, even on a lazy, dismal Saturday morning, wasn't evident. "What happened to all the people who did their real estate deals here?" a customer asked the cashier. "They can only afford Dunkin' Donuts these days," he replied, not smiling. Arizona: Pancakesand $70,000 homesTimes are tight and getting tighter. The IHOP in Tolleson was wall-to-wall people, mainly elderly, even at 11:30 on a Friday morning, and it took 15 minutes to be seated. What's going on?, a diner asked Yvonne the server as she seated him. "It's all-you-can-eat pancakes today," she said. "We've been filled every minute since 7 a.m., and we'll be this way till midnight." That's Tolleson, of course, where the way to tell if a house is occupied is if it has a standard-issue black garbage can on wheels awaiting pickup on trash day. Two houses, right across South 96th Avenue from one another, tell the story of what happened to real estate in Phoenix's West Valley, where 88 percent of all sales in the last six months were bank-owned

homes. Both houses were part of a massive 600-plus house auction Jan. 24 at the Scottsdale Hilton. Investors bought both, at prices that were not disclosed - although it was probably $70,000 - and reappeared for sale a few days later on the Multiple Listing Service. The two-bedroom at 3410 was listed for $87,500, while the investor was asking $104,000 for the three-bedroom at 3409. Tolleson's median is $107,000, down from $205,000 in 2007, and $270,000 in 2005, and lower than the $145,000 these houses cost when they were new in 2004. The Carvajals at 3409 and the Guzmans at 3410 bought at the top of the market in 2005, Maricopa County records show. In fact, 3409 originally sold new in March 2005 for $145,000, and the Carvajals bought it in September of that year for $240,000. The Guzmans paid $270,000 and, like the Carvajals, used a subprime adjustable-rate mortgage. When prices plummeted and rates adjusted, they got caught in the squeeze, and the banks foreclosed. Where did they go? The neighbors didn't seem to know. "Maybe California, Goodyear," a neighbor said as she wheeled her trash can back to the garage and waved away a reporter with her free hand. "It's not your business, and we're tired of talking about it." By the way, $70,000 seems to be the sweet spot of the market in the entire Phoenix area these days. "The $70,000-and-under market is very hot," said **Beth Jo Zeitzer**, president of R.O.I. Properties of Phoenix, "with multiple bids, even on properties that might need work." Nevada: Gambles,but no payoffsWhen you talk about employment in Las Vegas, you refer to the twin pillars of the Sin City economy - gambling and construction. The health of construction, however, depends totally on the wads of cash millions of visitors drop each day in the casinos. Last year, there were one million fewer visitors, and when you calculate how many fewer wads of cash that means, the effects have been sobering. Until recently, gambling was considered recession-proof. Yet, the signs that that isn't true are all around. Foreclosure rates are highest in zip codes in North Las Vegas, where many of the Strip's casino workers live. While increasing unemployment has compounded the problem, the foreclosures also were the result of the rapid rise in prices and, as in Phoenix, of buyers' gambling that they could adjust out of their option ARMs in a couple of years. Counting defaults, auctions and bank-owned houses, Clark County holds about 59,000 troubled properties. In Henderson, south of the Strip, RealtyTrac Inc. lists 6,658 foreclosures - a sizable proportion in a neighborhood known as Lake Las Vegas. The neighborhood, about 20 years old, began hitting its stride in 2002 with Lake Las Vegas Resort, a 3,592-acre master-planned community 20 miles east of the Strip. It includes a 320-acre man-made lake, three signature golf courses, two luxury hotels, a casino and retail shops, and more than 1,600 completed residential units - 142 now in foreclosure - with 9,000 planned. Things didn't work. The original developer, Transcontinental Corp., defaulted on its $570 million loan, and one luxury hotel, the Ritz-Carlton, filed for Chapter 11 in April to avert default on its $103 million loan. "A lot of investors bought in, hoping to make a lot of money flipping, and now they're in foreclosure," said Jeannene Shanholtz, of Prudential Americana Group, of Henderson. Worse yet, she said, there was a problem with a conduit under the man-made lake that threatened to drain it into Lake Meade. Repairs costing $3 million are under way. Everywhere:Leaving angryYou can measure the health of these markets with every statistic at an economist's disposal, but what you cannot measure statistically is the level of anger in the people whose dreams of homeownership have been dashed. "Some people are really angry, and even if they are really the ones at fault, they blame the banks and trash the property as much as they can before they clear out," said Derrick Le Blanc, co-owner of American Asset Management Co., of Santa Clarita, Calif., who gets bank-owned houses ready for resale. He acknowledges, however, that while he sees houses where granite countertops have been removed as the homeowner has left - "I can't figure out why, since they won't fit anywhere else" - he also sees houses that were left in perfect condition. "These are the ones that we can turn around with new carpeting and paint for resale quickly when the bank agrees," he said. Jess Rankin started Junk Eviction in Phoenix six months ago as another part of his commercial carpet-cleaning business and has been helping others set up foreclosure-cleaning operations in other states. When you walk inside, he said, the full force of how angry people are hits you immediately. "Not only is the house filled with trash, but they've taken everything that they could - appliances, carpeting, kitchen cabinets, flooring and even sections of air-conditioning units," he said, "which you need to sell houses in the desert." Among the victims of foreclosures have been pets. Last year, Maricopa County shelters received 55,000 abandoned animals, and only 24,000 were placed in new homes. The West was built on big hopes, big dreams. There is little of that around these days. The consensus everywhere is that, as the recession deepens and unemployment grows, the real estate markets in these three Western states will get even more desperate. Contact real estate writer Alan J. Heavens at 215-854-2472 oraheavens@phillynews.com.

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